



Public Accounts Committee

James Bowler CB
Permanent Secretary
HM Treasury
London

By email

24 May 2024

Whole of Government Accounts 2021-22

Dear Permanent Secretary

Thank you and your colleagues for giving evidence to the Public Accounts Committee on 15 May 2024 about the Whole of Government Accounts 2021-22 (WGA).

With the announcement of a general election and its implications for the parliamentary timetable, the Committee will not have the opportunity to publish a full report in the usual manner.

Instead, I am writing to put on record the Committee's conclusions and recommendations. I would be grateful if you could set out your response to these recommendations in a reply to our successor Committee, within two months of the new Chair being appointed.

1. **The unprecedented increase in the amount of missing and unaudited data within the 2021-22 WGA continues to reduce its utility as a record of public finances.** Over the course of this Parliament, we have repeatedly raised concerns about the extent of missing and unaudited data in the WGA. It is disappointing that this has worsened and resulted in the C&AG qualifying his audit opinion on the 2021-22 accounts as a result. In the most recent WGA, 178 bodies did not submit data to the WGA and 211 bodies submitted unaudited data for consolidation into the accounts, compared to 155 and 120 respectively the previous year. A large proportion of this related to local authorities. As we have found previously, gaps in the data reduces the completeness of the information available in the WGA, reduces the certainty of any consequent insights, conclusions or decisions, and makes it less useful to the reader.

Recommendation 1: The Department should set out details of its progress in addressing the local authority audit crisis and in reducing the number of missing or unaudited accounts that need to be consolidated into the WGA.

2. **We are seriously concerned that the issues in local authority audit will likely result in the Comptroller and Auditor General (C&AG) disclaiming his audit opinion on the WGA in future.** The proposed solution, the backstop, means that a significant number of accounts that were previously missing from the WGA are likely to be included in future with disclaimed opinions. You explained that you anticipated that this would result in an unprecedented disclaimed audit opinion for future iterations of the WGA. In this context, disclaimed local authority accounts are not necessarily an indication of financial problems in that local authority, but there is a risk that they may be misinterpreted as such. Equally, a disclaimed WGA does not mean it is not a useful tool. Careful communication with Parliament and the public will be essential to help to manage this.

Recommendation 2: The Department should set out how it will describe clearly within the WGA what the disclaimer means, and communicate this to the public.

3. **We are not yet convinced that actions planned to address long-standing issues within local authority audit will be enough to permanently resolve the existing situation.** The situation within local authority audit is likely to get worse before it gets better, and you told us that this was very likely to result in the C&AG having to disclaim his audit opinion of the WGA in 2022-23 and 2023-24. You recognised that this would be a shocking failure given the importance of the WGA. We note that you are seeking to prevent reoccurrence of the existing problems in the local authority audit market through simplifying financial reporting standards and providing funding to local audit. But the scale of the challenge is substantial and it will take time for the impact of these efforts to be seen in the WGA.

Recommendation 3: The Department should set out what measures it, and other government departments, are taking to prevent reoccurrence of issues in the local authority audit market. This includes: why it thinks these measures are sufficient; what the consequences will be for local authorities that fail to meet the deadline set by the backstop; and when it expects the WGA to no longer be disclaimed.

4. **The lack of alignment of the financial year-ends and the accounting policies of the organisations included in the WGA are reducing the utility of the accounts for readers.** The C&AG qualifies his audit opinion on the WGA in respect of several areas each year. Each qualification reduces the reliability of the accounts as the reader can take less assurance over the numbers presented therein. The misalignment between the adoption of IFRS 16 by central government and local government is likely to result in further qualification of the 2022-23 WGA. In addition, Treasury has yet to make progress in resolving issues around the financial year-end of academies, which are different to central government. In future, Treasury is planning to consolidate further education institutions (FEIs) which also have different financial year-ends to central government, and are running a pilot to get data at the correct year end.

Recommendation 4: The Department should set out: how it proposes to align year ends and accounting policies of organisations in the WGA; and what steps it is taking to resolve the ongoing qualification of the WGA from academies having different year ends, including how its pilot work with FEIs may inform this.

5. **Treasury has not been sufficiently proactive in managing and reducing the large financial liabilities included in the WGA.** The WGA includes several very large provisions, including a £238.3 billion provision in the 2021-22 WGA for nuclear decommissioning (£136.2 billion in 2020-21) and a £128.2 billion provision for clinical negligence claims (£84.9 billion in 2020-21). These are vast sums of money, and their value can vary substantially due to the use of discount rates, which set future payments in current monetary terms.

Recommendation 5: We look to the Treasury to ensure that it explains clearly in the WGA the reason for changes in provisions between years, and to set out how it will work with other Departments to ensure that these future costs are being well managed and controlled.

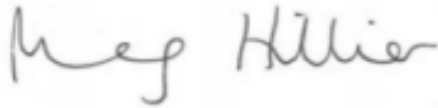
6. **Treasury is not doing enough to optimise the accessibility of the WGA so it can be used by Parliament and government to inform decision-making.** The WGA is unique in bringing together information on the financial performance and position of organisations across the UK and making it available to the public. But despite this, it is not being used as effectively as it could be to disseminate lessons learned and support informed decision making. We welcome your commitment to making the WGA as usable and accessible as possible, and urge you to take on board our recommendations in previous WGA reports about engaging with MPs and Parliament.

Recommendation 6: The Department should be more ambitious in encouraging greater use of the WGA. This should include providing training for MPs on how to use the WGA and learning from other countries.

Despite the issues we have identified with the WGA, it remains a valuable overview of the nation's finances. We welcome your confirmation in our evidence session that you would continue to work to address the concerns we have identified and to produce the WGA, to enable it to achieve its full potential for enabling effective, transparent and accountable decision making about public finances.

I am copying this letter to the Exchequer Secretary to the Treasury, the Comptroller and Auditor General and to the Treasury Officer of Accounts and it will also be published on the Committee's website.

Yours sincerely

A handwritten signature in black ink that reads "Meg Hillier". The signature is written in a cursive, flowing style.

Dame Meg Hillier MP
Chair of the Committee of Public Accounts